

**Report of the
PUBLIC EMPLOYEE RETIREMENT
ADMINISTRATION COMMISSION
on the Examination of the
Barnstable County
Contributory Retirement System
For the Five-Year Period
January 1, 1997 - December 31, 2001
PERAC 01: 07-001-01**

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January 23, 2004

The Public Employee Retirement Administration Commission has completed an examination of the **Barnstable County** Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, **1997** to December 31, **2001**; presentation of statements excludes the data for 1997 but is available upon written request. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records and management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiners Mary Dundas Hayden, James T. Sweeney and Patrick H LePage who conducted this examination and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,

Joseph E. Connarton
Executive Director

Barnstable County Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

FOR THE FIVE-YEAR PERIOD ENDED DECEMBER 31, 2001

ANNUAL STATEMENT MATCH: Based upon inspection of the Annual Statements filed by the Barnstable County Retirement System, PERAC auditors determined that certain line item amounts contained in the annual report did not agree with detailed supporting schedules. Some of the Annual Statements had differences in account balances such as cash, investment income, interest due and accrued, gains and losses, and market value increases and decreases, that did not coincide with those shown on their respective supporting schedules. Some of these differences are the result of general ledger entries that were not reflected on the schedules. Amounts reported on the Annual Statements must be verifiable on supporting schedules. As a sole source of information to third parties, the Annual Statements and supporting schedules must be able to stand on their own without having to reference the general ledger.

The membership exhibit numbers for active, retired, and totals at the end of a year do not match the opening figures for the subsequent year. These numbers originate from the computerized membership module.

Recommendation: Prior to submission of the Annual Statement to PERAC, a review process should be established to verify all appropriate line item amounts in the Annual Statement to the detailed supporting schedules using PERAC's Annual Statement Guide published each year. If necessary, differences in custodian-provided schedules should be reconciled to the amounts reported on the statement.

The membership exhibit report generated from the system should be reviewed and tested for accuracy. If there is a problem, the software company should be consulted to correct any errors due to programming.

Board Response:

In response to Paragraph 1, the auditors' comment seems to reflect a lack of understanding of the design of the TAC software. The impression created by the auditors' comment is that the System's records do not balance and are not in proper form when in fact the records do balance and are correct. The individual schedules are created by the computer program and provide the results designed by the program itself. We believe that the auditors are attempting to use these schedules differently than the computer program intended. They are not specifically created for the verification of the ultimate end of the year numbers. They are a source category of information used for verification purposes. The Barnstable staff has independently verified the accuracy of the System's numbers and established that all areas of the annual statement for all of the years covered by the audit balance. The impact of the statement is misleading and should be either removed or written in a manner to identify what the auditors perceive is wrong and discuss with TAC how its program fails to comply with the accounting provisions of Chapter 32.

Barnstable County Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

FOR THE FIVE-YEAR PERIOD ENDED DECEMBER 31, 2001

In the past, Barnstable has independently verified all of the investment manager trades in order to verify the custodians reports. They have been instructed by PERAC to discontinue this process which they have done.

The differences in the support schedules are not mistakes. Please advise as to the specific item or items that do not comply with PERAC's Annual Statement Guide and how you propose to reconcile the computer program to provide the information. Is it your position that PERAC's Annual Statement Guide is the method required under the provisions of Chapter 32, Accounting?

The membership printout referred to in paragraph two of Annual Statement Match is a computer software issue. The Board has advised TAC of your concern. Again, the emphasis placed on this report by the auditors is greater than the intent under the TAC software. There are many situations that can occur that the software will not identify so that subtotals may differ. The primary totals in the membership printout reflect actual correct numbers. When we get to some of the subtleties created by Chapter 32 it would be impossible to create a software program that could identify and categorize each possible issue. The Board uses this information along with all other information to cross reference, verify and establish the accuracy of the year end report numbers. If PERAC has a suggestion as to how TAC can design its program to identify all possibilities that the computer can analyze to establish the subcategories included within the membership, we will provide the information to TAC to redesign the program.

Your recommendation creates the incorrect impression that the information contained in the annual reports is not reviewed and verified. As previously stated, every category of information is independently reviewed, verified and balanced. What you are suggesting as programming errors are not program errors. They are individual isolated situations where the program has gaps because the program would be far too complex to make the adjustments. If you would like examples of situations where the program does not have the capacity to identify accurately what has taken place, we would be pleased to discuss the matter further.

PERAC Response:

The systems records appear to be in proper form and balance, but it is the information provided in the supporting schedules that are in question. Supporting schedules that are filed as part of the Annual Statement should enhance a readers understanding of the financial condition of the Retirement Board. When line items in the statements do not agree with the additional detail provided in supporting schedules it might confuse a reader or reduce their confidence in the information. On June 26, 2003, a list of the line items in question was faxed to the Board's Executive Director.

Barnstable County Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

FOR THE FIVE-YEAR PERIOD ENDED DECEMBER 31, 2001

It is the responsibility of the Board to work with their vendor to correct software gaps and issues relating to the supporting schedules. However, PERAC would be willing to meet with the Board and their vendors to provide assistance with this matter.

BOARD MINUTES: The Barnstable County Board members are not signing the Minutes. The Board's Secretary/ Executive Director is being directed to generate and attest to the Minutes. In accordance with G.L. c.32, § 21 (1) and Division of Insurance memo dated February 25, 1981 the Minutes must be attested to and signed by all members of the Board in attendance.

Recommendation: All Board members who were in attendance, as well as the individual preparer of the minutes must sign the minutes of meetings.

Board Response:

The Board has always reviewed the minutes after each of its meetings. The minutes have been signed by the Executive Director who has created the minutes. The Board will now add signature blocks and sign the minutes.

BOARD EXPENSES: A review of Retirement System expenses paid over the five-year period 1997-2001 indicated that meals and hotel expenses, and computer equipment expenses are being charged to incorrect expense account numbers; primarily the Administrative Expenses #5589.

The Board authorized and paid conference registration and meal expenses for a vendor.

Recommendation: Travel expenses such as conference registration, meals, hotel and mileage must be charged to the general ledger travel account, #5719. Capital equipment i.e. furniture, copiers and computer equipment must be charged to the general ledger account Furniture and Equipment, #5599.

The Board should only be reimbursing Board members' and staff members' conference expenses.

The Barnstable County Retirement Board has submitted travel regulations, which are under review by PERAC.

Board Response:

The Board's accounting is accurate, but it will make the recommended changes as outlined in the identifying of the general ledger account from which the funds will be taken. This change will be made in the next budget cycle for the year 2004.

The Board will no longer provide the payment of conference registration and meal expenses for a vendor. The Board has benefited from the vendor being present at the conferences.

Barnstable County Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

FOR THE FIVE-YEAR PERIOD ENDED DECEMBER 31, 2001

Under the comment concerning travel regulations, Barnstable County did submit proposed travel regulations prior to the PERAC CMR covering travel regulations being approved by the Legislature. Since the CMR have been established, Barnstable has determined at this time separate local regulations are unnecessary.

MEMBERSHIP: PERAC auditors sampled member deduction rates to determine that correct percentages are being withheld and that the additional 2% deduction is withheld from those members who make over \$30,000 and were hired after January 1, 1979. The sample yielded an 18% error rate, primarily with the additional 2% for income over \$30,000. There were also errors in the basic deduction rate and retirement deductions withheld for non-regular earnings.

There are approximately 200 members employed in two or more units within the System. Three of these were included in the sample; all had errors with the additional 2% deduction for incomes over \$30,000. The additional 2% was not withheld on total earnings over \$30,000.

Recommendation: The Board must comply with G.L. c. 32, § 22 (1)(b), and PERAC MEMO #43/1999, defining 2% additional deductions. The Board should initiate a system of obtaining detailed payroll information from each of the units, including the following member information:

1. Name
2. Social Security number or employee number
3. Compensation by type: total, regular, overtime and 2% excess
4. Contribution amount
5. Contribution rate
6. Membership date
7. Any other information deemed appropriate

This data must be routinely reviewed by the Board to ensure proper deductions are being withheld.

The Board must identify and monitor the contributions of members who are employed by more than one unit and ensure that these members are paying the correct contributions, based on their membership dates, and their annualized salaries.

A training program should be set up for all payroll personnel, including representatives from outside payroll services. All persons charged with processing retirement deductions should receive copies of any and all memos or notices relating to new regulations or other changes involving eligibility or contribution rates.

Barnstable County Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

FOR THE FIVE-YEAR PERIOD ENDED DECEMBER 31, 2001

Board Response:

In county systems with the number of units the Retirement Board must rely upon the accuracy of the employers' payroll information maintained by the employer who is independently responsible for their accuracy. There is no provision in Chapter 32 for a Retirement Board to independently audit the units' records to insure their accuracy. The units are autonomous from the retirement system. All units have been given a detailed data report on all members. The information was verified and subsequent edits have been made. The units will be asked to verify data on a regular basis. Training seminars will be scheduled. Barnstable has made it possible for all employees in all units to attend educational seminars. The Board members and staff have made themselves available to individual members and unit officials to continually advise as to the importance of the information they provide to the Board.

We have reviewed the recommendation and believe that we have done and continue to do everything possible. PERAC may independently wish to advise units as to what information it requires to be provided.

The turnover of the payroll staff in member units has an impact on the quality of the information received. Turnover is not reported to the Retirement System. Retirement staff have gone to the town administrators, executives, etc., when direct contact with the payroll personnel has not resolved concern.

PERAC Response:

An 18% error rate in member deductions is unacceptable. It is the Board's obligation pursuant to G.L. c. 32, § 22 (1)(b) and (1)(b1/2) to ensure deductions are correct. Payroll officers typically generate detailed payroll registers at each pay period and maintain them for their own records. Copies of these reports should be used by the Board to test the accuracy of member deductions.

RETIREE SUPERANNUATION CALCULATION: The Board is calculating the three-year average salary from recorded deduction amounts. If the Board is not receiving the detailed payroll information mentioned above, the deductions may be in error, thereby generating an incorrect average salary.

Recommendation: The Board needs to receive the detailed payroll information stated above in order to ensure proper calculation of average salary.

Board Response:

The method used by the Retirement System is consistent with the statute. Every attempt is made to insure the payroll information is correct. Many hours are spent in an effort to obtain payroll information in a timely manner. Many units are under staffed and the employees do not have the necessary background to be performing the job they are doing. In some units, all of the personnel

Barnstable County Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

FOR THE FIVE-YEAR PERIOD ENDED DECEMBER 31, 2001

responsible for payroll have changed. Again, if PERAC has suggestions for the units, it may be beneficial for the auditing department to make direct contact with the units. The staff does verify the contributions from its records and the information provided.

PERAC Response:

Payroll officers typically generate detailed payroll registers at each pay period and maintain them for their own records. These records were used by the auditors to determine correct deductions and should be used by the Board in determining the correct three-year average regular earnings.

CASH RECONCILIATION: At the end of 2001, the expense account had one outstanding check listed (\$20) that was older than six months. That same check remained outstanding at 5/31/02. In prior years, the system had as many as fourteen checks outstanding for longer than six months. The highest these items totaled was \$1700.

Recommendation: Any items older than six months should be researched, so that the proper voiding and recording of these items can be completed.

Board Response:

The staff has been tracking the checks. The checks are usually related to estates where there have been delays in completing the estate work.

CONTRACTS: The Board entrusted funds to State Street Bank in 1996, prior to having a signed contract. Issues surrounding the custody contract were not resolved until 1997. A signed original contract with State Street Bank & Trust was not on file at the Board. An incomplete copy was received post-audit. The contract extension with State Street expired September 30, 2002. The Board should actively seek proposals for a new custody contract.

The Board allowed its contract with U.S. Trust to lapse in 1995, making the three-year extension signed in 1996 invalid.

The System has not received ADV forms from its investment consultant or managers annually, as required by 840 CMR 16.02. JP Morgan has submitted a disclosure form that is undated. Disclosure forms for the Bank of Ireland could not be found. The Board's contract with Circle Trust was undated.

The Board did not follow a competitive process when it chose State Street Global Advisors as an investment manager in 2000.

Recommendation: The Board must require its investment managers and consultant to comply with the regulations set forth in 840 CMR 16.02. Valid contracts must be in force for all financial

Barnstable County Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

FOR THE FIVE-YEAR PERIOD ENDED DECEMBER 31, 2001

concerns. When contracts are agreed upon, the Board must review all documents for completeness. The selection of any Board investment manager must follow the process and meet the requirements of G.L. c. 32, § 23, and 840 CMR 16.08.

Board Response:

The staff has undertaken a review of the contracts and will be providing recommendations to the Board. The contracts are self extending so that the parties remain bound by the terms until extended or rewritten. With the current investment regulations, investment contracts are not required to have time frames.

The legal determination made by the auditors that the U.S. Trust contract has lapsed is incorrect. The extension is valid. Please advise as to the law relied upon by the auditors to establish their determination.

The Retirement System has received and forwarded ADV to its attorney and consultant for review. With the change in consultants, the new consultant under its contract has the responsibility of annually reviewing the ADV of all investment managers. Board counsel will review the consultant's ADV and issues of concern shown in managers ADV to provide Board recommendations where necessary.

The Circle Trust contract referred to by the auditors is not in effect as it was terminated by the Board and the funds moved.

The comment on State Street Global Advisors is an example of the counterproductive tone of the auditors comments in general as it has been addressed several times in the past. PERAC was notified before the contract was established. The situation was an emergency even though PERAC does not now recognize that emergencies do exist. Barnstable terminated the State Street Global Advisors before this audit was performed. Therefore even if there was a concern, it has previously been resolved. The comment therefore is not necessary and does not address the present state of the System's investments.

The Board has always been careful about following the appropriate process. In fact, it has lost opportunities in the venture capital area because the regulations failed to recognize the nature of solicitation time frames with venture funds. The Board has spent substantial funds to insure compliance with the regulations.

PERAC Response:

The contract with U.S. Trust signed on March 10, 1992 stated that the contract would be in force "...for a term of Three (3) years from said date with an option for renewal for an additional term of three (3) years...". Board Counsel issued a letter on February 14, 1996 in which he stated that (...the

Barnstable County Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

FOR THE FIVE-YEAR PERIOD ENDED DECEMBER 31, 2001

contract term of three (3) years has expired as of February 1995). He further asserts the Board's intention to extend the contract retroactively. A prudent person would not "reactivate" a contract that had been expired for twelve months. Contract review and renewal should take place on or before expiration of the term stated in the original contract. The comprehensible language in the contract and in Counsellor Quirk's letter was sufficient to make this determination.

Contractual problems, such as those with Circle Trust and State Street Global Advisors, occurred with contracts that were in force at some time during the audit period, and are mentioned for purposes of disclosure.

Final Determination

PERAC auditors will follow up in six (6) months to ensure that appropriate actions have been taken regarding all audit findings.

Barnstable County Retirement System

STATEMENT OF LEDGER ASSETS AND LIABILITIES

**FOR THE FIVE-YEAR PERIOD BEGINNING JANUARY 1, 1997
AND ENDING DECEMBER 31, 2001**

FOR THE PERIOD ENDED DECEMBER 31,				
ASSETS	2001	2000	1999	1998
Cash	\$8,413,239	\$5,770,743	\$5,047,704	\$12,323,650
Short Term Investments	1,000,000	444,345	2,400,000	1,000,000
Fixed Income Securities (1998 & 1997 at book value)	0	48,633,803	70,086,772	81,309,899
Mortgage	0	0	12,095	9,289
Equities	103,926,679	105,756,234	131,885,301	116,511,077
Pooled Short Term Funds	0	0	0	0
Pooled Domestic Equity Funds	44,347,056	47,190,322	36,283,195	20,904,956
Pooled International Equity Funds	40,803,141	50,179,286	54,811,528	25,928,612
Pooled Global Equity Funds	0	0	0	0
Treasures Master Trust	99,618,206	52,918,547	4,702,263	5,865,072
Pooled International Fixed Income Funds	0	0	0	0
Pooled Global Fixed Income Funds	0	0	0	0
Pooled Alternative Investment Funds	337,219	0	0	0
Pooled Real Estate Funds	14,065,242	13,009,035	9,292,560	8,334,920
Pooled Domestic Balanced Funds	0	0	0	0
Pooled International Balanced Funds	0	0	0	0
PRIT Cash Fund	0	0	0	0
PRIT Core Fund	0	0	0	0
Interest Due and Accrued	2,457	569,354	519,476	394,849
Accounts Receivable	861,012	9,440,310	3,346,740	3,027,493
Accounts Payable	(171,800)	(10,807,222)	(2,159,339)	(6,627,122)
TOTAL	<u>\$313,202,450</u>	<u>\$323,104,756</u>	<u>\$316,228,294</u>	<u>\$268,982,693</u>
FUND BALANCES				
Annuity Savings Fund	\$116,510,317	\$108,236,363	\$100,808,674	\$93,098,922
Annuity Reserve Fund	31,299,029	28,384,031	25,242,753	22,537,797
Military Service Fund	14,973	14,694	14,392	13,840
Pension Fund	26,001,298	22,684,556	24,053,515	24,442,768
Expense Fund	0	0	0	0
Pension Reserve Fund	139,376,833	163,785,111	166,108,960	128,889,366
TOTAL	<u>\$313,202,450</u>	<u>\$323,104,756</u>	<u>\$316,228,294</u>	<u>\$268,982,693</u>

Note: Information for 1997 not shown, but available upon written request.

Barnstable County Retirement System

STATEMENT OF CHANGES IN FUND BALANCES

**FOR THE FIVE-YEAR PERIOD BEGINNING JANUARY 1, 1997
AND ENDING DECEMBER 31, 2001**

	Annuity Savings Fund	Annuity Reserve Fund	Military Service Fund	Pension Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (1998)	85,627,600	\$20,695,848	13,308	23,527,739	0	105,383,165	235,247,660
Receipts	13,459,744	632,092	566	16,179,821	1,592,910	23,496,548	55,361,681
Interfund Transfers	(3,574,572)	3,572,030	0	(7,111)	0	9,653	(0)
Disbursements	<u>(2,413,850)</u>	<u>(2,362,173)</u>	<u>(34)</u>	<u>(15,257,681)</u>	<u>(1,592,910)</u>	<u>0</u>	<u>(21,626,648)</u>
Ending Balance (1998)	93,098,922	22,537,797	13,840	24,442,768	0	128,889,366	268,982,693
Receipts	14,547,059	703,129	552	16,190,949	1,950,214	37,201,374	70,593,276
Interfund Transfers	(4,677,793)	4,662,581	0	(3,007)	0	18,220	0
Disbursements	<u>(2,159,514)</u>	<u>(2,660,753)</u>	<u>0</u>	<u>(16,577,194)</u>	<u>(1,950,214)</u>	<u>0</u>	<u>(23,347,674)</u>
Ending Balance (1999)	100,808,674	25,242,753	14,392	24,053,515	0	166,108,960	316,228,294
Receipts	15,521,738	786,778	302	17,100,168	2,175,137	(2,336,656)	33,247,466
Interfund Transfers	(5,330,889)	5,332,109.47	0	(14,028.60)	0.00	12,807.94	0
Disbursements	<u>(2,763,160)</u>	<u>(2,977,610)</u>	<u>0</u>	<u>(18,455,099)</u>	<u>(2,175,137)</u>	<u>0</u>	<u>(26,371,005)</u>
Ending Balance (2000)	108,236,364	28,384,031	14,694	22,684,556	0	163,785,111	323,104,756
Receipts	16,972,529	865,802	279	23,839,513	2,039,868	(24,410,087)	19,307,904
Interfund Transfers	(5,362,785)	5,374,246	0	(13,269.81)	0	1,808.43	(0)
Disbursements	<u>(3,335,791)</u>	<u>(3,325,051)</u>	<u>0</u>	<u>(20,509,501)</u>	<u>(2,039,868)</u>	<u>0</u>	<u>(29,210,210)</u>
Ending Balance (2001)	<u>\$116,510,317</u>	<u>\$31,299,028</u>	<u>\$14,973</u>	<u>\$26,001,298</u>	<u>\$0</u>	<u>\$139,376,833</u>	<u>\$313,202,450</u>

Note: Information for 1997 not shown, but available upon written request.

Barnstable County Retirement System

STATEMENT OF INCOME

**FOR THE FIVE-YEAR PERIOD BEGINNING JANUARY 1, 1997
AND ENDING DECEMBER 31, 2001**

	FOR THE PERIOD ENDED DECEMBER 31,			
	2001	2000	1999	1998
Annuity Savings Fund:				
Members Deductions	\$14,006,574	\$12,773,483	\$11,583,982	\$10,596,646
Transfers from other Systems	572,328	418,302	726,207	574,486
Member Make Up Payments and Redeposits	410,029	295,214	262,512	288,716
Investment Income Credited to Member Accounts	<u>1,983,598</u>	<u>2,034,739</u>	<u>1,974,359</u>	<u>1,999,896</u>
Sub Total	<u>16,972,529</u>	<u>15,521,738</u>	<u>14,547,059</u>	<u>13,459,744</u>
Annuity Reserve Fund:				
Investment Income Credited Annuity Reserve Fund	<u>865,802</u>	<u>786,778</u>	<u>703,129</u>	<u>632,092</u>
Pension Fund:				
3 (8) (c) Reimbursements from Other Systems	677,165	612,420	621,442	431,988
Received from Commonwealth for COLA and Survivor Benefits	1,412,432	1,281,740	907,597	1,815,709
Pension Fund Appropriation	<u>21,749,917</u>	<u>15,206,008</u>	<u>14,661,910</u>	<u>13,932,124</u>
Sub Total	<u>23,839,513</u>	<u>17,100,168</u>	<u>16,190,949</u>	<u>16,179,821</u>
Military Service Fund:				
Contribution Received from Municipality on Account of Military Service	0	0	247	247
Investment Income Credited Military Service Fund	<u>279</u>	<u>302</u>	<u>304</u>	<u>319</u>
Sub Total	<u>279</u>	<u>302</u>	<u>552</u>	<u>566</u>
Expense Fund:				
Expense Fund Appropriation	0	0	0	0
Investment Income Credited to Expense Fund	<u>2,039,868</u>	<u>2,175,137</u>	<u>1,950,214</u>	<u>1,592,910</u>
Sub Total	<u>2,039,868</u>	<u>2,175,137</u>	<u>1,950,214</u>	<u>1,592,910</u>
Pension Reserve Fund:				
Federal Grant Reimbursement	69,141	50,636	46,617	56,031
Pension Reserve Appropriation	3,649,430	3,468,780	2,786,838	1,363,229
Interest Not Refunded	54,956	51,213	57,985	51,557
Excess Investment Income	(28,183,613)	(5,907,285)	34,309,934	22,025,730
Sub Total	<u>(24,410,087)</u>	<u>(2,336,656)</u>	<u>37,201,374</u>	<u>23,496,548</u>
TOTAL RECEIPTS	<u>\$19,307,904</u>	<u>\$33,247,466</u>	<u>\$70,593,276</u>	<u>\$55,361,681</u>

Note: Information for 1997 not shown, but available upon written request.

Barnstable County Retirement System

STATEMENT OF DISBURSEMENTS

**FOR THE FIVE-YEAR PERIOD BEGINNING JANUARY 1, 1997
AND ENDING DECEMBER 31, 2001**

FOR THE PERIOD ENDED DECEMBER 31,				
Annuity Savings Fund:	2001	2000	1999	1998
Refunds to Members	\$2,196,886	\$1,948,072	\$1,593,396	\$1,729,583
Transfers to other Systems	<u>1,138,905</u>	<u>815,088</u>	<u>566,117</u>	<u>684,267</u>
Sub Total	<u>3,335,791</u>	<u>2,763,160</u>	<u>2,159,514</u>	<u>2,413,850</u>
Annuity Reserve Fund:				
Annuities Paid	3,178,509	2,836,198	2,508,410	2,251,403
Option B Refunds	<u>146,542</u>	<u>141,412</u>	<u>152,343</u>	<u>110,770</u>
Sub Total	<u>3,325,051</u>	<u>2,977,610</u>	<u>2,660,753</u>	<u>2,362,173</u>
Pension Fund:				
Pensions Paid				
Regular Pension Payments	13,698,471	12,347,437	10,931,327	9,974,313
Survivorship Payments	971,487	938,767	877,617	844,765
Ordinary Disability Payments	696,997	614,352	518,397	412,008
Accidental Disability Payments	4,197,824	3,791,108	3,493,592	3,335,998
Accidental Death Payments	432,769	288,220	267,092	302,706
Section 101 Benefits	122,537	127,413	169,767	105,355
Reimbursement/Adjustment			(8,487)	(18,404)
3 (8) (c) Reimbursements to Other Systems	389,416	347,801	327,889	300,941
State Reimbursable COLA's Paid	0	0	0	0
Chapter 389 Beneficiary Increase Paid	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>20,509,501</u>	<u>18,455,099</u>	<u>16,577,194</u>	<u>15,257,681</u>
Military Service Fund:				
Return to Municipality for Members Who				
Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>34</u>
Expense Fund:				
Board Member Stipend	21,321	17,122	50,250	0
Salaries	282,245	281,382	259,426	235,728
Legal Expenses	53,732	60,895	56,642	50,767
Medical Expenses	0	0	0	0
Travel Expenses	1,727	1,221	1,161	1,098
Administrative Expenses	245,351	229,806	199,126	261,333
Furniture and Equipment	3,597	595	1,234	573
Management Fees	1,293,979	1,383,588	1,190,246	937,656
Custodial Fees	75,850	116,862	105,807	65,973
Consultant Fees	<u>62,065</u>	<u>83,664</u>	<u>86,322</u>	<u>39,783</u>
Sub Total	<u>2,039,868</u>	<u>2,175,137</u>	<u>1,950,214</u>	<u>1,592,910</u>
TOTAL DISBURSEMENTS	<u>\$29,210,210</u>	<u>\$26,371,005</u>	<u>\$23,347,674</u>	<u>\$21,626,648</u>

Note: Information for 1997 not shown, but available upon written request.

INVESTMENT INCOME

**FOR THE FIVE-YEAR PERIOD BEGINNING JANUARY 1, 1997
AND ENDING DECEMBER 31, 2001**

	FOR THE PERIOD ENDED DECEMBER 31,			
	2001	2000	1999	1998
Investment Income Received From:				
Cash	\$220,192	\$533,955	\$439,169	\$355,715
Short Term Investments	218,487	224,988	209,128	170,749
Fixed Income	2,630,376	6,978,899	6,749,344	6,413,591
Equities	1,192,729	1,462,806	2,119,011	2,108,521
Pooled or Mutual Funds	8,024,006	3,627,933	1,248,593	4,156,497
PRIT Fund	0	0	0	0
Commission Recapture	<u>7,512</u>	<u>32,965</u>	<u>25,466</u>	<u>46,494</u>
TOTAL INVESTMENT INCOME	<u>12,293,303</u>	<u>12,861,546</u>	<u>10,790,712</u>	<u>13,251,566</u>
Plus:				
Increase in Amortization of Fixed Income Securities	0	0	579,482	97,024
Realized Gains	5,174,235	26,982,830	25,201,272	24,825,091
Unrealized Gains	15,501,292	6,772,606	36,156,990	18,383,658
Interest Due and Accrued on Fixed Income Securities - Current Year	<u>2,457</u>	<u>569,354</u>	<u>519,476</u>	<u>394,849</u>
Sub Total	<u>20,677,984</u>	<u>34,324,789</u>	<u>62,457,221</u>	<u>43,700,621</u>
Less:				
Decrease in Amortization of Fixed Income Securities	0	0	(477,100)	(1,504,082)
Paid Accrued Interest on Fixed Income Securities	(932,713)	(2,626,483)	(1,925,543)	(1,467,949)
Realized Loss	(23,929,630)	(15,979,011)	(15,711,796)	(21,311,342)
Unrealized Loss	(30,833,656)	(28,971,695)	(15,800,705)	(5,933,907)
Custodial Fees Paid	0	0	0	0
Consultant Fees Paid	0	0	0	0
Management Fees Paid	0	0	0	0
Board Member Stipend	0	0	0	0
Interest Due and Accrued on Fixed Income Securities - Prior Year	<u>(569,354)</u>	<u>(519,476)</u>	<u>(394,849)</u>	<u>(483,960)</u>
Sub Total	<u>(56,265,353)</u>	<u>(48,096,665)</u>	<u>(34,309,993)</u>	<u>(30,701,240)</u>
NET INVESTMENT INCOME	<u>(23,294,066)</u>	<u>(910,330)</u>	<u>38,937,940</u>	<u>26,250,948</u>
Income Required:				
Annuity Savings Fund	1,983,598	2,034,739	1,974,359	1,999,896
Annuity Reserve Fund	865,802	786,778	703,129	632,092
Expense Fund	2,039,868	2,175,137	1,950,214	1,592,910
Military Service Fund	279	302	304	319
TOTAL INCOME REQUIRED	<u>4,889,547</u>	<u>4,996,956</u>	<u>4,628,006</u>	<u>4,225,218</u>
Net Investment Income	<u>(23,294,066)</u>	<u>(910,330)</u>	<u>38,937,940</u>	<u>26,250,948</u>
Less: Total Income Required	<u>4,889,547</u>	<u>4,996,956</u>	<u>4,628,006</u>	<u>4,225,218</u>
EXCESS INCOME TO THE PENSION RESERVE FUND	<u>(\$28,183,613)</u>	<u>(\$5,907,285)</u>	<u>\$34,309,934</u>	<u>\$22,025,730</u>

Note: Information for 1997 not shown, but available upon written request.

Barnstable County Retirement System

STATEMENT OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

FOR THE FIVE-YEAR PERIOD ENDED DECEMBER 31, 2001

	BOOK VALUE*	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED*
Cash		\$5,770,743	1.78%	100
Short Term		\$444,345	0.14%	100
Fixed Income		\$48,633,803	15.01%	35 - 80
Equities		\$105,756,234	32.65%	* 50
Pooled Short Term Funds		\$0	0.00%	
Pooled Domestic Equity Funds		\$47,190,322	14.57%	*
Pooled International Equity Funds		\$50,179,286	15.49%	* 15
Pooled Global Equity Funds		\$0	0.00%	
Pooled Domestic Fixed Income Funds		\$52,918,547	16.34%	
Pooled International Fixed Income Funds		\$0	0.00%	
Pooled Global Fixed Income Funds		\$0	0.00%	
Pooled Alternative Investment Funds		\$0	0.00%	
Pooled Real Estate Funds		\$13,009,035	4.02%	10
Pooled Domestic Balanced Funds		\$0	0.00%	
Pooled International Balanced Funds		\$0	0.00%	
PRIT Cash Fund		\$0	0.00%	
PRIT Core Fund		\$0	<u>0.00%</u>	100
GRAND TOTALS	<u>\$0</u>	<u>\$323,902,314</u>	<u>100.00%</u>	

* Total Equities not to exceed 65% of portfolio

* The book value differs from the market value for individually owned Fixed Income Securities which are valued at amortized cost which is the original cost of the investment plus or minus any bond discount or bond premium calculated ratably to maturity. All other investments are reflected at their quoted market value.

For the year ended December 31, **2001**, the rate of return for the investments of the **Barnstable County** Retirement System was 0.64%. For the five-year period ended December 31, **2001**, the rate of return for the investments of the **Barnstable County** Retirement System averaged 11.44%. For the sixteen-year period ended December 31, **2001**, since PERAC began evaluating the returns of the retirement systems, the rate of return of the investments of the **Barnstable County** Retirement System was 9.71%.

Barnstable County Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS

FOR THE FIVE-YEAR PERIOD ENDED DECEMBER 31, 2001

The **Barnstable County** Retirement System submitted the following supplementary investment regulations, which were approved by PERAC on:

July 27, 1989

(1) Real estate investments shall not exceed 10% of the total book value of the portfolio at the time of purchase and shall consist of real estate separate accounts, provided that:

(a) the Board does not participate in the selection of the separate account management and should the Board be required to participate in the selection of the separate account management, prior to any participation by the board, the board shall consult with PERAC to determine the appropriate course of action, and

(b) the separate account management retains authority in the decision making process, and

(c) should an investment in a separate account result in the direct ownership of real estate or mortgage indebtedness, such shall be permitted only until such time as divestiture of said separate account is prudent.

20.04 All investments shall consist of recognized quality marketable securities issued by:

(1) United States based corporations and equities of foreign corporations.

20.07(5) Equity investments shall be made only in securities listed on a United States stock exchange, traded over the counter in the United States, or listed and traded on the exchanges of the following countries: Austria, Belgium, Denmark, Finland, France, Germany, Italy, Netherlands, Norway, Spain, Sweden, Switzerland, United Kingdom, Australia, Hong Kong, Japan, New Zealand, and Singapore/Malaysia.

20.07(6) Sales of equity investments shall not exceed 200% of the average market value of all equity holdings in any twelve-month period.

20.08(e) Cash or cash equivalent investments may be made in the foreign currencies of the countries listed in 20.07(5), however, foreign currency speculation is prohibited.

April 24, 1992

16.02(4) The board may employ a custodian bank and may charge such expenses against earned income from investments provided that such expenses shall not exceed in any one-year .08% of the value of the fund.

February 3, 1994

20.03(2) At least 35% but no more than 80% of the total portfolio valued at market shall consist of fixed income investments with a maturity of more than one year including Yankee Bonds which shall be limited to 10% of the total fixed income portfolio valued at market and including international fixed income investments which shall be limited to 10% of the total fixed income portfolio.

Barnstable County Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

FOR THE FIVE-YEAR PERIOD ENDED DECEMBER 31, 2001

July 20, 1995

18.02(4) **Rate of Return.** A statement of the rate of return objective for the entire portfolio which shall be at least one percent (1%) greater than a composite performance index consisting of fifty percent (50%) of the Standard & Poors SA Free 500 Stock Index and fifty percent (50%) of the Lehman Brothers Aggregate Bond Index, cumulated quarterly.

20.04(6) American Depository Receipts denominated in U.S. currency and listed on a United States stock exchange or traded over the counter in the United States, provided that the total of all such investments shall be considered part of the board's equity asset allocation and shall not exceed 5% of the total market value of the equity portfolio.

November 30, 1995

16.02(3) The Board may incur expenses for investment advice or management of the funds of the system by a qualified investment manager and the Board may incur expenses for consulting services which may include performance measurement, asset allocation services, investment manager searches, and commission recapture searches. Such expenses may be charged against earned income from investments provided that the total of such expenses shall not exceed in any one year:

- (a) 1% of the value of the fund for the first \$5 million; and
- (b) 0.6% of the value of the fund in excess of \$5 million.

August 29, 1996

20.03(1) Equity investments shall not exceed 65% of the portfolio valued at market, including international equities, which shall not exceed 15% of the portfolio valued at market.

October 10, 1996

20.07(1) The issuer of equity securities must have a publicly available operating record of at least five years, including past performance resulting from mergers, acquisitions, and spin-offs. However, up to 5% of the total equity market value may be used to purchase securities with a publicly available operating record of less than five years.

840 CMR 21.00: Prohibited Investments:

(3) Futures Contracts other than as follows:

- (a) Forward Currency Contracts may be written against securities in the international portfolio by an investment advisor registered under the Investment Advisors Acts of 1940 and who has been granted a waiver from PERAC for international investments.

Barnstable County Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

FOR THE FIVE-YEAR PERIOD ENDED DECEMBER 31, 2001

840 CMR 21.00: Prohibited Investments (continued):

- (b) Forward Currency Contracts may be written against securities in the international portfolio to a maximum of twenty-five percent (25%) of the international portfolio's non-dollar holdings at market value. Speculative currency positions unrelated to the underlying portfolio holdings are strictly prohibited.

November 3, 1997

- 20.06(2) Bonds shall have a minimum quality rating of Baa or equivalent as rated by one or more recognized bond rating services, however, 15% of the market value of fixed income investments may be invested in bonds with a quality rating of below Baa or equivalent as rated by one or more recognized bond rating services.
- 20.06(4) Fixed income holdings which are downgraded by one or more recognized rating services to below a Baa or equivalent rating must be sold within a reasonable period of time not to exceed one year, however, 15% of the market value of fixed income investments may be invested in bonds with a quality rating of below Baa or equivalent.

Barnstable County Retirement System

NOTES TO FINANCIAL STATEMENTS

FOR THE FIVE-YEAR PERIOD ENDED DECEMBER 31, 2001

NOTE 1 - THE SYSTEM

The plan is a contributory defined benefit plan covering all **Barnstable County** Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

Instituted in 1937, the System is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws. Membership in the plan is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

The system provides for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65 (for certain hazardous duty and public safety positions, normal retirement is at age 55).

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. The average retirement benefit is approximately 75 - 85% pension and 15 - 25% annuity.

Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Members joining the retirement system after January 1, 1979 must contribute an additional 2% on regular compensation earned at a rate in excess of \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. These deductions are deposited in the Annuity Savings Fund and earn interest at a rate determined by the Executive Director of PERAC according to statute. When a member's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund. Any cost-of-living adjustment granted between 1981 and 1997 and any increase in other benefits imposed by state law during that period are borne by the state.

The pension portion of any retirement benefit is paid from the Pension Fund of the System. The governmental unit employing the member must annually appropriate and contribute the amount of current year pension payments as indicated on the most recent funding schedule as approved by PERAC's Actuary. Until recently, retirement systems were paying only the actual retirement

Barnstable County Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FIVE-YEAR PERIOD ENDED DECEMBER 31, 2001

NOTE 1 - THE SYSTEM (Continued)

benefits that were due each year. Systems had no statutory authorization to put aside any money for the future benefits of employees who are now working. Large unfunded liabilities resulted from operating upon this pay-as-you-go basis. In 1977, legislation authorized local governments to appropriate funds to meet future pension obligations.

In 1983, additional legislation was passed requiring the transfer of investment earnings (in excess of the amount credited to member accounts) into the Pension Reserve Fund. These initiatives have significantly reduced the rate of growth of the retirement systems' unfunded liabilities, and in some systems have actually eliminated such liability.

Administrative expenses are funded through investment income of the system.

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors including: whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veteran's status, and group classification.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive either zero (0%) percent, fifty (50%) percent, or one hundred (100%) percent of the regular interest which has accrued upon those deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Executive Director of Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Voluntary contributions, redeposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

Barnstable County Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FIVE-YEAR PERIOD ENDED DECEMBER 31, 2001

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The **Barnstable County** Retirement System submitted the following supplementary membership regulations, which were approved by PERAC on:

December 27, 1984

1. A part-time permanent, provisional temporary, temporary provisional, seasonal, or intermittent employee who is to be classified in Group A shall be eligible for membership in the retirement system if he has worked for one hundred thirty (130) days or its equivalent within the calendar year. If the annual period of service is less than one hundred thirty (130) days or its equivalent within the calendar year, he/she shall not be eligible for membership.

Barnstable County Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FIVE-YEAR PERIOD ENDED DECEMBER 31, 2001

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

December 27, 1984 (Continued)

Any other such person who is to be classified in Group B shall become a member in service upon entry into service except that Call Fire Fighters, Reserve Police, and Seasonal Police who are originally employed on or after May 29, 1957 at a regular rate of compensation of less than two hundred (\$200) per year shall not be eligible for membership, except by vote of the Retirement Board. Call Fire Fighters, Reserve Police, and Seasonal Police who are duly involved, as members prior to May 29, 1957 shall continue to be members until such termination of their service. (Repealed January 1, 1995)

2. A part-time permanent, provisional, temporary, temporary provisional, seasonal, or intermittent employee receiving weekly or monthly salaries or wages for prescribed periods of employment shall be given creditable service based on actual service rendered provided that in the case of any such employee whose work is found by the Board to be seasonal in its nature, the Board shall credit as one (1) year of service actual full time service not less than seven (7) months during any one calendar year.
3. A Call Fire Fighter or Reserve Police Officer shall be given one (1) month of creditable service for each year of service, as consistent in section 4(2)b of Chapter 32. (Repealed January 1, 1995)

Note: Additional sentence added to Rule #3 by amendment approved December 13, 1998 is not repealed.

4. The Board voted that beginning April 1967, it would exclude from membership in the retirement system all call fire fighters unless otherwise voted by the Board. (Repealed January 1, 1995)
5. As of July 1, 1977 the Barnstable County Retirement System shall require one (1) year waiting period between the filing of duplicate application by a member/department head for the same type (ordinary or accidental) of disability retirement.
6. As of July 1, 1977, eligibility for membership in the Barnstable County Retirement System for individuals whose employment commences on or after July 1, 1977 shall be based upon regular employment of not less than twenty five (25) hours per week per calendar year (1300) hours or 25 hours per week per school year (900) hours.

Barnstable County Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FIVE-YEAR PERIOD ENDED DECEMBER 31, 2001

NOTE 3 -SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

December 27, 1984 (Continued)

7. For any part-time, provisional, temporary, seasonal, intermittent or on-call status of employment rendered by an employee prior to, or during membership service status, who becomes, or was employed in a full-time position, shall at the time of retirement, receive full membership credit for the periods of full time employment and partial, or pro-rata membership service credit for all categories of less than full-time employment, based upon, as far as practicable, the actual number of hours worked by a regular permanent, full-time employee. For the purposes of computing partial or pro-rata membership service, full-time credit shall be considered to be two hundred and sixty-one (261) work days and seven and one-half (7 1/2) hours per day or, nineteen hundred and fifty-seven (1957) hours per annum.

December 13, 1988 (Revision to Board's Rule #3)

"A call firefighter or reserve police officer may be granted full time creditable service for service rendered as a call firefighter or reserve police officer, for that period of time included under the provisions of Chapter 32, Section 4(2)(b) of the General Laws as amended by Chapter 125 of the Acts of 1964, by Chapter 738 of the Acts of 1964 and by Chapter 73 of the Acts of 1965 and, for that period of employment prior to the enactment of the above stated statutory amendments, so long as such combined service does not exceed a maximum of five (5) years of creditable service prior to the commencement of the member's full time employment and provided further, that such service shall be credited only if such call firefighter or reserve police officer is later appointed as a permanent member of the Fire or Police Department in the same governmental unit. It is the intent of the Board that this rule shall have no retrospective or retroactive affect."

October 16, 1990

A full year of creditable service will be granted to school department employees who are employed for a full "school year".

February 6, 1995

Effective January 1, 1995, and upon receipt of satisfactory proof of the number of actual hours worked, eligibility for membership in the Barnstable County Retirement Association for call firefighters and reserve police officers shall be based upon regular employment of not less than 25 hours per week per calendar year (1300) hours.

Barnstable County Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FIVE-YEAR PERIOD ENDED DECEMBER 31, 2001

NOTE 3 -SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

February 6, 1995 (Continued)

This rule is approved as submitted with the understanding that call fire fighters and reserve police officers excluded from membership by this rule, may, if subsequently enrolled as members of the retirement system, purchase such prior non-membership service. Approval is further premised on the understanding that this rule will have prospective application only. Call Fire fighters and reserve police officers who are currently enrolled as members of the retirement system may not be removed from the membership roles by virtue of this rule.

Seasonal employees are excluded from membership in the Barnstable County Retirement Association unless membership has otherwise been established.

This rule is approved as submitted. However, it should be noted that G.L. c.32, s.4 (2)(b) also provides that “in the case of any such employee whose work is found by the board to be seasonal in nature, the board shall credit as the equivalent of one year of service, actual full-time service of not less than seven months during any one calendar year”.

July 27, 1999

Full-time employees who serve as full-time police, fire or emergency medical dispatchers whose job title is Emergency Telecommunications Dispatcher have replaced the job titles of Fire and Police Signal Operators, as listed in G.L. c. 32, § 3(2)(g) Group 2, provided that no member who attains age sixty- five (65) while classified in Group 1 may thereafter be classified in Group 2.

March 1, 2000

As of July 1, 1977 eligibility for membership in the Barnstable County Retirement Association for individuals whose membership commenced on or after July 1, 1977 shall be based upon regular employment of not less than 25 hours per week per calendar year (1300 hours) or 25 hours per week per school year (900 hours) for individuals providing service to any member unit of the Barnstable County Retirement Association.

Employees of member units of the Barnstable County Retirement Association holding part-time permanent positions working not less than 25 hours per week who work the full time required for the position as certified by the Treasurer, Department Head or other authorized entity to determine the hours for each position will be given full creditable service for the services performed in said position. If said part-time employees, however, become full- time employees, the creditable service earned during the member’s part-time employment shall be prorated.

Barnstable County Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FIVE-YEAR PERIOD ENDED DECEMBER 31, 2001

NOTE 3 -SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

February 4, 2002

The Retirement Board, by establishing this supplemental rule, does not insert the retirement system into the employer/employee relationship. The Retirement Board, by creating this supplemental rule, does not make the determination as to which employees are entitled to the fringe benefit governed by this rule except as provided for in this rule and by statute. The Retirement Board does not assume the responsibility to establish the value of the benefit. The Treasurer, in conjunction with the appropriate employer's representation in connection with IRS regulations, are to establish the value of the regular compensation to be attributed to motor vehicle use for acceptance of the fringe benefit as regular compensation.

Rule:

Non-Exempt Motor Vehicles

A member who is provided a non-exempt motor vehicle for personal use by the employer as a necessary and usual requirement of the member's employment shall be credited annually as additional regular compensation an amount which shall be determined by adopting the taxable value of same as set by the member's employer, and as appearing on the member's W-2 Form. Said regular compensation shall be approved upon payment of appropriate retirement contributions by the member. A member who receives a standard and regularly paid allowance from the employer for use of the member's personal motor vehicle in the course of performing the member's duties, as appearing on the member's W-2 Form, shall be credited annually with additional regular compensation in the amount of said allowance upon payment of appropriate retirement contributions by the member.

Exempt Motor Vehicles

A member who supplies written documentation from the employer satisfactory to the Board establishing that the member has commuting use only of an exempt motor vehicle will receive the value of regular compensation at a rate of \$1.50 per day per one way commute for 249 days a year. Said regular compensation shall be approved upon payment of appropriate retirement contributions by the member.

A member who supplies written documentation from the employer satisfactory to the Board that the member has unlimited personal use of an exempt vehicle will receive the value of regular compensation at a rate equal to the annual lease value of the motor vehicle as set by the Internal Revenue Service. Satisfactory documentation as to the vehicle's fair market value must be provided to the Board. Said regular compensation shall be approved upon payment of appropriate retirement contributions by the member. Varying, sporadic or irregular reimbursement by the employer to a member for use of the member's motor vehicle shall not be considered regular compensation.

Barnstable County Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FIVE-YEAR PERIOD ENDED DECEMBER 31, 2001

NOTE 3 -SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

February 4, 2002 (Continued)

Implementation:

The effective date of this supplemental regulation will be the date the Retirement Board votes to adopt said rule, subject to PERAC statutory review and approval.

For members receiving regular compensation for non-exempt motor vehicles and a member who receives regular compensation for an exempt motor vehicle used by the member for commuting use only, it will be the responsibility of the Treasurer to insure that the appropriate deductions are obtained from the employee's wages in order for the employee to have this benefit included as regular compensation. For members receiving regular compensation for an exempt motor vehicle where such member has unlimited personal use of an exempt vehicle, the member will be responsible for providing to the retirement system all of the documentation relied upon by the employer to establish the value of his vehicle use fringe benefit to the satisfaction of the Board. Upon the Board's approval and acceptance of the valuation method, the Board shall calculate the amount of money to be paid by the employee to the retirement system in order to exercise his or her right to have the exempt motor vehicle use constitute regular compensation.

The Board shall assess the payment of such benefit on an annual basis; said amount assessed to be paid to the retirement system on a date designated by the Board.

Once a member avails him or herself of this fringe benefit as regular compensation, the member cannot discontinue or alter the benefit unless and until his or her employment contract is altered.

Barnstable County Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FIVE-YEAR PERIOD ENDED DECEMBER 31, 2001

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by the **The Segal Company** as of **January 1, 2002**.

The actuarial liability for active members was	\$308,926,407
The actuarial liability for retirees and beneficiaries was	<u>238,453,368</u>
The actuarial liability for inactive members was	<u>6,152,191</u>
The total actuarial liability was	553,531,966
Actuarial Value of system assets as of that date were	<u>362,911,896</u>
The unfunded actuarial liability was	<u>\$190,620,070</u>
 The ratio of system's assets to total actuarial liability was	 65.56%
As of that date the total covered employee payroll was	\$166,134,511

The normal cost for employees on that date was 8.10% of payroll

The normal cost for the employer was 6.00% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 8.25% per annum
Rate of Salary Increase: 4.50% for 2002, 5.00% thereafter

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2001

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2002	\$ 362,911,896	\$ 553,531,966	\$ 190,620,070	65.56%	\$166,134,511	114.74%
1/1/2000	\$ 300,396,700	\$ 462,462,500	\$ 162,065,800	64.96%	\$152,293,100	106.42%
1/1/1998	\$ 235,247,660	\$ 404,215,695	\$ 168,968,035	58.20%	\$121,161,677	139.46%
1/1/1996	\$ 157,044,089	\$ 276,107,221	\$ 119,063,132	56.88%	\$108,456,079	109.78%
1/1/1993	\$ 97,194,645	\$ 226,430,792	\$ 129,236,147	42.92%	\$97,074,725	133.13%

Barnstable County Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FIVE-YEAR PERIOD ENDED DECEMBER 31, 2001

NOTE 6 - MEMBERSHIP EXHIBIT

Retirement in Past Years	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Superannuation	61	69	67	91	53	95	83	90	102	95
Ordinary Disability	4	1	3	6	11	2	3	9	3	3
Accidental Disability	9	12	14	8	12	13	8	9	14	16
Total Retirements	74	82	84	105	76	110	94	108	119	114
Total Retirees, Beneficiaries and Survivors	1,490	1,578	1,608	1,694	1,686	1,840	1,860	1,915	1,992	2,039
Total Active Members	3,646	3,869	3,999	3,939	4,222	4,351	4,039	4,706	4,887	4,991
Pension Payments										
Superannuation	\$6,239,049	\$6,547,654	\$6,986,232	\$7,758,382	\$8,291,795	\$9,149,865	\$9,974,313	\$10,931,327	\$12,347,437	\$13,698,471
Ordinary Disability	318,767	313,501	312,117	353,264	433,385	380,463	412,008	518,397	614,352	696,997
Accidental Disability	1,834,987	1,958,641	2,211,004	2,469,653	2,638,769	3,067,818	3,335,998	3,493,592	3,791,108	4,197,824
Survivor/Beneficiary Payments	725,129	728,878	74,612	788,842	737,599	827,338	844,765	877,617	938,767	971,487
Other	500,881	500,720	570,292	562,742	619,498	647,286	690,598	756,261	763,434	944,722
Total Payments for Year	<u>\$9,618,813</u>	<u>\$10,049,394</u>	<u>\$10,154,257</u>	<u>\$11,932,883</u>	<u>\$12,721,046</u>	<u>\$14,072,770</u>	<u>\$15,257,681</u>	<u>\$16,577,194</u>	<u>\$18,455,099</u>	<u>\$20,509,501</u>